District of Columbia Office of Planning

MEMORANDUM

TO: District of Columbia Zoning Commission

FROM: Jennifer Steingasser, Deputy Director

DATE: September 14, 2012

SUBJECT: **Supplement Report** for ZC #11-03A, Southwest Waterfront Phase 1
Second Stage Planned Unit Development
Parcel 11 Affordability Analysis

I. SUMMARY RECOMMENDATION

Hoffman-Struever Waterfront, LLC, (applicant) has submitted information regarding their proposed affordable housing component for Parcel 11, which proposes the provision of *Workforce Housing*[1] units instead of the required Inclusionary Zoning (IZ) units. The Office of Planning (OP) has reviewed the information provided and surrounding home values and cannot conclude there is a demonstrated need for housing in the proposed alternative workforce price range. OP does not support the variance from the IZ regulations.

II. APPLICATION-IN-BRIEF

The applicant has requested a variance from the IZ requirement and proposed in the alternative that Parcel 11 set aside approximately twenty percent (20%) of the Gross Floor Area (GFA) or 26 units as affordable to households earning upwards of 120% of the Area Median Income (AMI)[2] instead of setting aside eight percent (8%) of the GFA or 8,708 gross square feet and 12 units per the requirements of IZ. OP points out that IZ in an R-5-B zone would normally require 10 percent of the GFA or 10,487 gross square feet and approximately 14 units, unless the building is made with steel and concrete construction. IZ requires that half the units be set aside for households earning 50 percent of AMI and half set aside for households at 80 percent of AMI. The applicant's proposal more than doubles the number of units set aside per IZ, but at a much higher income target, through a heavier concentration of 1-bedroom units and relatively fewer studios and 2-bedrooms.

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[1] Workforce Housing is generally described as housing affordable to households earning between 60 percent and 120 percent of the Area Median Income (AMI). However, *Priced Out: Persistence of Workforce Housing Gap in the Washington DC Metro Area* completed for the Urban Land Institute's Terwilliger Center for Workforce Housing focused on studying households up to 100 percent of AMI.

[2] 2012 AMI for the Washington Metropolitan Statistical Area is $107,500 for a family of four.

III. PROPOSAL DESCRIPTION AND ANALYSIS

The applicant's proposal to provide 26 units targeted to households earning up to 120% of the AMI uses the same price methodology as Inclusionary Zoning. The main assumption in the pricing is that monthly housing costs (principal, interest, taxes, insurance, and condominium fees) should not exceed 30 percent of the targeted benchmark incomes. OP reviewed the proposal and the potential public benefits in two ways. First, OP used US Census data from the 2008-2010 American Community Survey (ACS) to estimate what percent of income recent homeowners earning 120% of AMI pay for housing in the District of Columbia. Second, OP looked at the cost of homeownership in the immediate neighborhood (zip code 20024) surrounding Parcel 11.

Data from the ACS suggests households that earned between 100 and 120 percent of the AMI and that moved to and purchased a home in the District within the previous four years, spent on average 34 percent of their income on housing costs. This suggests that there may be a small benefit of providing a unit that is slightly below the price paid by other similar households purchasing a home in the District. As a comparison, households that earned between 50 percent and 80 percent of the AMI spent on average 45 percent of their income on housing costs, which suggest a far larger gap in the available supply.

Sales data from the past year on homes in the 20024 zip-code are found in the table to the right. OP divided the sales data by unit type and by date of construction. The table shows that while there is a gap between the 120 percent of AMI control price and Parcel11's market rate price there is no gap between the control price and the average price of units in the neighborhood. In fact, the control price is significantly higher than other units in the neighborhood. This raises a question regarding the marketability of the units and the realistic willingness of households to purchase more expensive units with price controls when they could purchase a unit in the neighborhood for a cheaper price with no price controls.

Market Rate Sales and Affordable Control Price

	Averages Sales Price[1]	120% of AMI Control Price	Sales Price Gap
Existing Studio	$ 184,784	$ 360,500	$ (175,716)
Existing 1-Bed	$ 227,096	$ 414,500	$ (187,404)
Existing 2-Bed	$ 304,668	$ 425,000	$ (109,832)
Existing 3-4 Bed	$ 516,750	NA	NA
New Studio	$ 219,000		$ (141,500)
New 1-Bed	$ 302,075		$ (112,425)
New 2-Bed	$ 368,714		$ (56,286)
Parcel 11 Studio	$ 405,600		$ 45,100
Parcel 11 1-Bed[2]	$ 426,400		$ 11,900
Parcel 11 2-Bed	$ 851,400		$ 426,400

Source: Redfin.com; Hoffman-Struever Waterfront LLC; Office of Planning, August 2012.
Notes:
(1)Caculated from the past 12 months of sales (8/2011-8/2011). Existing defined as units built before 2004 and New defined as built from 2004 to 2012.
(2)Per applicant Workforce Scenario would include larger 1-bedrooms + dens selling for a market price of $524,100 instead of $426,400.

Price controls such as IZ's, typically limit appreciation to around 2 to 3 percent per year, whereas the long running average appreciation of homes in the District is closer to 6 to 8 percent per year. However, without price controls there would be no measurable public benefit because an owner could resell the unit at a price equal to Parcel 11's full market value and the affordable units would be lost.

If the units are not marketable, this raises a question of what happens to the units if they remain unsold for any length of time. Based on communication with the Department of Housing and Community Development (DHCD), previous efforts by the District to target households at 120 percent of AMI have run into similar problems.

OP raised this concern with the applicant but the submitted information did not address it. Given any potential public benefit is small at best, and absent a discussion of what happens to the units if they remain unsold, the Office of Planning recommends against setting aside units at 120 percent of AMI and recommends that the applicant meet the full requirements of the Inclusionary Zoning program.

JS/ahr